

# **Tutorial Letter 201/2/2018**

## **Internal Auditing: Theory & Principles**

**AUI2601**

### **Semester 2**

### **Department of Auditing**

This tutorial letter contains important information about your module.

Bar code

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## 1 BRIEFING

This assignment consisted of 20 multiple-choice questions which you had to answer on a mark-reading sheet. The assignment was marked electronically and you should have received a report on the mark you obtained for the assignment. At this stage we would like to provide the correct answers to the various questions.

The mark you received for this assignment will contribute towards your year mark, and your year mark will contribute 10% towards your final mark for this module.

We trust that you found this assignment interesting and challenging. We hope you are looking forward to learning more about the practice of internal auditing in this module.

**Lecturer: AUI2601**

## 2 KEY TO ASSIGNMENT 01/2018 (SECOND SEMESTER)

Note the following in the comments below:

The **Standards** refers to the International Standards for the Professional Practice of Internal Auditing

**CAE** stands for the chief audit executive

**IAA** stands for the internal audit activity

Question	Correct answer	Study guide reference
1.1	2	Learning unit 6
<p>Option 2 is correct. The CAE makes staff assignments so that potential and actual conflicts of interest and bias are avoided (PA 1120-1, para. 2). A close relative's involvement with a supplier of an engagement client is an apparent conflict of interest.</p> <p>Option 1 is incorrect. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year (Implementation Standard 1130.A1). Thus, 5 years is a reasonable lapse of time to safeguard the employee from a charge of conflict of interest.</p> <p>Option 3 is incorrect. Although rotation of assignments is preferable, no conflict of interest is involved in performing an assurance service for the same activity repeatedly.</p> <p>Option 4 is incorrect. Objectivity is not impaired if the internal auditor's responsibility was</p>		

limited to recommending standards of control for systems or reviewing procedures before implementation.

Question	Correct answer	Study guide reference
1.2	4	Learning unit 7

Option 4 is correct. Skills required by the Standards for internal auditors include:

- Skills in dealing with people, understanding human relations, and maintaining satisfactory relationships with engagement clients.
- Skills in oral and written communications to clearly and effectively convey such matters as engagement objectives, evaluations, conclusions and recommendations.
- An understanding of management principles to recognise and evaluate the materiality and significance of deviations from good business practices. An understanding means the ability to apply broad knowledge to situations likely to be encountered, to recognise significant deviations, and to be able to carry out the research necessary to arrive at reasonable solutions.
- An appreciation (not expertise) of the fundamentals of business subjects such as accounting, economics, commercial law, taxation, finance, quantitative methods, information technology, risk management, and fraud. An appreciation means the ability to recognise the existence of problems or potential problems and to identify the additional research to be undertaken or the assistance to be obtained. (PA 1210-1, para.1)

Option 1 is incorrect. Internal auditors also should understand human relations and be skilled in dealing with people and in oral and written communication.

Option 2 is incorrect. Internal auditors are expected to have an appreciation of (not be experts in) fields related to their audit responsibilities. Moreover, internal auditors should be able to recognise and evaluate the materiality and significance of deviations from good business practices.

Option 3 is incorrect. Internal auditors must have an appreciation of, not expertise in, the fundamentals of fields related to their audit responsibilities. They also should understand human relations and be skilled in dealing with people. Furthermore, they should be able to recognise and evaluate the materiality and significance of deviations from good business practices.

Question	Correct answer	Study guide reference
1.3	2	Learning unit 7
<p>Option 2 is correct. Due professional care implies reasonable care and competence, not infallibility or extraordinary performance. It requires the internal auditor to conduct examinations and verifications to a reasonable extent (PA 1220-1, para. 2).</p> <p>Option 1 is incorrect. Examination and verification need only be undertaken to a reasonable extent.</p> <p>Option 3 is incorrect. An internal auditor cannot give absolute assurance.</p> <p>Option 4 is incorrect. The possibility of material irregularities must be considered.</p>		
Question	Correct answer	Study guide reference
1.4	4	Learning unit 4
<p>Option 4 is correct. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Definition of Internal Auditing).</p> <p>Options 1 is incorrect. Management is responsible for the establishment of internal control.</p> <p>Option 2 is incorrect. Governance, risk management, and control processes ultimately serve to safeguard the organisation's resources.</p> <p>Option 3 is incorrect. Ensuring the reliability and integrity of financial and operational information is a management responsibility.</p>		
Question	Correct answer	Study guide reference
1.5	3	Learning unit 6
<p>Option 3 is correct. The IIA Code of Ethics is typical. Its purpose is "to promote an ethical culture in the profession of internal auditing." The definition of internal auditing states that it is "an independent, objective assurance and consulting activity." Moreover, internal auditing is founded on "the trust placed in its objective assurance about risk management, control, and governance." Accordingly, internal auditors are professionals who serve others by providing assurance and consulting services.</p> <p>Option 1 is incorrect. Although this result may follow from establishing a code of conduct, it is</p>		

not the primary purpose. To consider it so would be self-serving.

Option 2 is incorrect. A code of conduct can help to establish minimum standards of competence, but it would be impossible to legislate equality of competence by all members of a profession.

Option 4 is incorrect. In some situations, responsibility to the public at large may conflict with and be more important than loyalty to one's organisation.

Question	Correct answer	Study guide reference
1.6	1	Learning unit 6

Option 1 is correct. Rule of Conduct 1.1 under the integrity principle states, "Internal auditors shall perform their work with honesty, diligence and responsibility."

Option 2 is incorrect. Timeliness, sobriety and clarity are not mentioned in the Code.

Option 3 is incorrect. Knowledge, skills and competencies are mentioned in the Standards.

Option 4 is incorrect. Punctuality is not mentioned in the Code.

Question	Correct answer	Study guide reference
1.7	4	Learning unit 6

Option 4 is correct. Rule of Conduct 3.1 under the confidentiality principle states, Internal auditors shall be prudent in the use and protection of information acquired in the course of their duties. Additionally, Rule of Conduct 3.2 states, "Internal auditors shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation." Thus, such

Option 1 is incorrect. According to Rule of Conduct 1.1, "Internal auditors shall perform their work with honesty, diligence and responsibility."

Option 2 is incorrect. According to Rule of Conduct 4.3, "Internal auditors shall continually improve their proficiency and the effectiveness and quality of their services."

Option 3 is incorrect. According to Rule of Conduct 4.2, "Internal auditors shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing." The Standards require supporting information to be sufficient, reliable, relevant and useful.

Question	Correct answer	Study guide reference
1.8	1	Learning unit 1
<p>Option 1 is correct.</p> <p>Option 2, 3 and 4 is incorrect.</p>		
Question	Correct answer	Study guide reference
1.9	3	Learning unit 7, 62-63
<p>Option 3 is correct. All these options are included in an internal audit charter.</p> <p>Option 1 is incorrect. I, II and III is not the only one that are correct.</p> <p>Option 2 is incorrect. VI is incorrect. Internal audit staffing levels and requirements are dependent on the internal audit plan, therefore not included in the internal audit charter, which stipulates how the internal audit activity will be managed.</p> <p>Option 4 is incorrect. VI is incorrect. See option 2 for explanation.</p>		
Question	Correct answer	Study guide reference
1.10	2	Learning unit 7
<p>Option 2 is correct. Supervision includes ensuring that the auditors assigned possess the requisite knowledge, skills and other competencies to perform the engagement; providing appropriate instructions during the planning of the engagement and approving the engagement work program; seeing that the approved engagement work program is carried out unless changes are both justified and authorised; determining that engagement working papers adequately support the engagement observations, conclusions, and recommendations; ensuring that engagement communications are accurate, objective, clear, concise, constructive and timely; ensuring that engagement objectives are met; and providing opportunities for developing internal auditor's knowledge, skills and other competencies.</p> <p>Option 1 is incorrect. Engagement resource allocation is a planning function, not a supervisory function.</p> <p>Option 3 is incorrect. Determining the scope is a planning function, not a supervisory function.</p>		

Option 4 is incorrect. Appraising performance on an annual basis is not a supervisory function of a specific engagement but is part of the management of the human resources of the internal audit activity.

Question	Correct answer	Study guide reference
1.11	3	Learning unit 7

Option 3 is correct. Due care implies reasonable care and competence, not infallibility or extraordinary performance. Due care requires the internal auditor to conduct examinations and verifications to a reasonable extent, but does not require detailed reviews of all transactions. Accordingly, internal auditors cannot give absolute assurance that noncompliance or irregularities do not exist. Nevertheless, the possibility of material irregularities or noncompliance should be considered whenever an internal auditor undertakes an internal auditing assignment.

Option 1 is incorrect. Detailed reviews of all transactions are not required.

Option 2 is incorrect. Reasonable care and skill, not infallibility or extraordinary performance, are necessary.

Option 4 is incorrect. Only reasonable, not absolute, assurance can be given.

Question	Correct answer	Study guide reference
1.12	3	Learning unit 10

Option 3 is correct. Project management skills are important, but according to The IIA's Internal Auditor Competency Framework, this attribute falls in the Tools and Techniques competency category.

Option 1, 2 and 4 are incorrect. These are all part of the Interpersonal Skills competency category.

Question	Correct answer	Study guide reference
1.13	3	Learning unit 5

Option 3 is correct.

Option 1, 2 and 4 is incorrect.

Question	Correct answer	Study guide reference
1.14	3	Learning unit 1, Definition
<p>Option 3 is correct. This is a primary function of any internal auditing department.</p> <p>Option 1 is incorrect. Only significant audit findings should be discussed with the audit committee.</p> <p>Option 2 is incorrect. Internal auditors are not required to report deficiencies in regulatory compliance to the appropriate agencies. However, IIA members and Certified Internal Auditors (CIA's) may not knowingly be involved in illegal acts.</p> <p>Option 4 is incorrect. This is not a primary objective of the internal auditing department. It is a budgetary control that management may require on a periodic basis.</p>		
Question	Correct answer	Study guide reference
1.15	4	Learning unit 7
<p>Option 4 is correct. The key point is independence and objectivity. A specialist from the department currently being audited would not be independent due to his or her natural bias toward that department.</p> <p>Option 1 is incorrect. This includes acceptable consultants, but do not identify all the acceptable choices.</p> <p>Option 2 is incorrect. This includes acceptable consultants, but do not identify all the acceptable choices.</p> <p>Option 3 is incorrect. A specialist from the same department is unacceptable since the person would not be either independent or objective.</p>		
Question	Correct answer	Study guide reference
1.16	1	Learning unit 7
<p>Option 1 is correct. The IIA Standards address this aspect of working paper content.</p> <p>Option 2 is incorrect. The Code of Ethics does not address working papers.</p> <p>Option 3 is incorrect. The Statement of Responsibilities of Internal Auditing does not address working papers.</p>		

Option 4 is incorrect. The Foreign Corrupt Practices Act does not deal with workpaper content.		
Question	Correct answer	Study guide reference
1.17	1	Learning unit 7
<p>Option 1 is correct. This is the correct answer per the IIA Standards on professionalism.</p> <p>Option 2 is incorrect. Professional Standards Bulletins are not authoritative sources.</p> <p>Option 3 is incorrect. The Code makes no such requirement.</p> <p>Option 4 is incorrect. This is not true.</p>		
Question	Correct answer	Study guide reference
1.18	3	Learning unit 4 and 7
<p>Option 3 is correct. This is an ideal reporting relation.</p> <p>Option 1 is incorrect. Reversed reporting structure.</p> <p>Option 2 is incorrect. This reporting responsibility would not be independent when reporting to controller.</p> <p>Option 4 is incorrect. Internal auditor does not report to external auditor.</p>		
Question	Correct answer	Study guide reference
1.19	1	Learning unit 7
<p>Option 1 is correct. The engagement should be properly supervised to ensure objectives are achieved, quality is assured and staff is developed. Supervision includes ensuring that the auditors assigned possess the requisite knowledge, skills and other competencies to perform the engagement; providing appropriate instructions during the planning of the engagement and approving the engagement work program; seeing that the approved engagement work program is carried out unless changes are both justified and authorised; determining that engagement working papers adequately support the engagement observations, conclusions, and recommendations; ensuring that engagement communications are accurate, objective, clear, concise, constructive and timely; ensuring that engagement objectives are met; and providing opportunities for developing internal auditor's knowledge, skills and other competencies. Hence supervision is a control that encompasses all aspects of engagements.</p>		

Option 2 is incorrect. Although useful, time budgets do not assure the adequacy of work supporting opinions.

Option 3 is incorrect. Engagement working papers support the conclusions and engagement results, but supervision is necessary to ensure the adequacy of work.

Option 4 is incorrect. Proper staffing is required, but supervision is essential to ensure an adequate basis for opinions.

Question	Correct answer	Study guide reference
1.20	3	Learning unit 7

Option 3 is correct. "Internal auditors should determine appropriate resources to achieve engagement objectives. Staffing should be based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources." Hence, it is implicit that the work program should state the resources necessary to carry out the detailed tasks specified. However, quantification of costs is not essential to writing the work program.

Option 1 is incorrect. The preliminary risk assessment/survey provides necessary background information about activities, risks and controls.

Option 2 is incorrect. Engagement communications contain, among other things, information about observations from prior engagements and corrective actions taken.

Option 4 is incorrect. Internal auditors should ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished.